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Analysis of Business Trends Plus Selected Financial Indicators

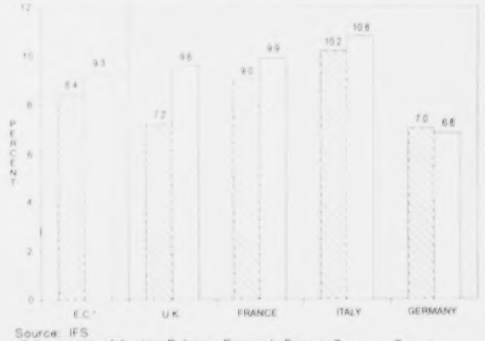
Waiting For Godot

While voter discontent threatens the reelection prospects of countless political incumbents in the upcoming fall elections in this country, a similar situation is already unfolding in Western Europe, where several governments have either just faced, or will soon face their electorates. Not surprisingly, persistent economic malaise throughout a large chunk of the industrial world has provided a fertile breeding ground for voter dissatisfaction. But, whereas the United States has implemented aggressive policy actions designed to spur economic recovery, the policy flexibility of many hard-pressed European governments is limited, shackled by their membership in the Exchange Rate Mechanism (ERM) of the European Monetary System (EMS) and their subsequent commitment to exchange rate stability. For many, this means that as long as Germany—the linchpin of the EMS—maintains its high interest rate, inflation-fighting monetary stance, so too must they, notwithstanding spreading economic lethargy and rising joblessness. In this environment, policymakers throughout much of Western Europe have been relegated to the bullpen, awaiting the arrival of a German Godot—namely, a relaxation of the Bundesbank's monetary policy.

To be sure, European policy paralysis is less than total, and such countries as the United Kingdom and France have eased fiscal policy to some extent. However, the steps taken to date have been insufficient to jump-start these sagging economies and nowhere is this more apparent than in the United Kingdom. Buffeted by falling output in five of the past six quarters, a jobless rate quickly closing in on double-digit levels, slumping housing activity and home prices and a mounting toll of business failures, the United Kingdom is now mired in not only a protracted economic downturn, but also an intense one; last year, the U.K. economy experienced its sharpest annual contraction since the 1930s.

With the roots of the current recession running deep, a quick turnaround does not appear to be in the offing. As in the United States, a sizeable overhang of household debt precludes a sharp revival of consumer spending, acres of vacant commercial real estate have yet to be digested, tumbling home prices have sapped confidence and, with the economies of such key overseas markets as Germany and Italy weakening, export prospects are fading. What is more, the interest rate remedy has yet to be applied; quite the contrary, inflation-adjusted interest rates are being kept near the peaks reached during the heady days of economic expansion in order to shore up sterling within the ERM. Against this backdrop, it's a tough time for the sitting government to face elections; the ruling Conservative Party is locked in a neck-and-neck race with the opposition Labor Party on the eve of the April 9 general election.

UNEMPLOYMENT RATE IN SELECTED COUNTRIES:
LATEST MONTH (CLEAR BARS) VS.
SAME MONTH ONE YEAR AGO (SHADED BARS)



Source: IFS
*E.C. consists of Austria, Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain.

European Blues

In France, voter discontent has already descended upon the governing Socialists. They suffered a thumping electoral setback in regional and local elections in late March, prompting last week's resignation of Prime Minister Edith Cresson. While the reasons for the setback extended beyond economic concerns—the economy should continue to eke out modest gains, sidestepping a full-fledged recession—here, too, the oppressive weight of high real interest rates has reduced the margin between slow growth, and no growth to razor thin levels. Rising unemployment, a potent issue in last month's elections, has soured the public mood and dampened income growth; the jobless rate now stands at 9.9 percent of the workforce. The demand for housing has weakened, swelling the inventory of unsold dwellings and depressing prices, and capital spending is stagnating, deterred by lofty borrowing costs and problematic overseas sales prospects.

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Yet, with France savoring one of the lowest inflation rates in the European Community and firmly committed to the stability of the franc relative to the Deutschemark, the French authorities are extremely reluctant to adopt more expansionary economic policies. For one thing, with the spread between short-term French and German interest rates already quite narrow, any further compression of the existing differential might unleash substantial cross-border capital flows, out of French assets and into German ones. For another, while today's policies would seem to consign France to an extended period of subpar growth, it is still believed that the longer-run inflation/competitiveness benefits of "staying the course" outweigh the economic, if not political, costs of a policy U-turn.

Pivotal Germany

At first glance, Germany would seem to be increasingly ripe for a dollop of monetary ease, opening the door for a pan-European decline in interest rates. Reflecting the one-two punch of biting interest rates and rising taxes to finance the eastern German renaissance, the German economy has been shifting into lower gear for months. In fact, for three straight quarters, the economy has contracted. Although it might be argued that the economy appears to be stabilizing at a relatively high level of activity—as evi-

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/18/92)	153,522	- 3,132	- 50,601
New York City (3/25/92)	25,681	- 356	- 5,914
Commercial Paper (3/25/92)	541,143	- 2,638	- 22,035

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/18/92)	289,871	+ 600	- [illegible],061
New York City (3/25/92)	49,856	- 360	- 7,444

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/18/92)	1,016,798	- 749	- 36,746
New York City (3/25/92)	163,281	+ 739	- 10,531

Financial Markets

	Friday 4/3/92	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	4.05%	- .05	- 1.82
180-Day Bills†	4.16	- .11	- 1.81
Longest Bills†	4.36	- .19	- 1.87
Recent Issues:			
5⅛s 3/31/94	5.36	- .30	
6⅞s 3/31/97	6.76	- .19	
7⅛s 11/15/01	7.41	- .12	
8s 11/15/21	7.88	- .06	
Municipals:			
Bond Buyer—20 Bond Index* (4/2/92)	6.73%	- .04	- .33
Blue List Total ($ Million)	$1,280	- $ 403	- $ 5
30-Day Visible Supply ($ Million)	$3,793	- $ 864	+$1,398
Total	$5,073	- $1,267	+$1,393
Corporates:			
Moody's Aa Composite (4/2/92)	8.68%	- .07	- .47
30-Day Visible Supply ($ Million)	$ 650	+ $ 385	+$ 50
Stocks:			
Dow-Jones Averages:			
Industrials	3,249.11	+ 17.67	+352.32
Transportation	1,348.28	- 31.39	+232.98
Utilities	203.99	+ .75	- 11.12
65 Stocks	1,154.65	- 3.55	+123.00
N.Y.S.E. Composite Index	221.86	- 1.45	+ 16.20
N.Y.S.E. Avg. Daily Vol. for Week (000's)	168,946	- 15,637	- 17,830

*34% Taxable equivalent 10.20%

† Bond equivalent

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 4/3/92	Week Ago
Overnight	4.25%	4.19%
1 month	4.25	4.31
3 month	4.31	4.38
6 month	4.44	4.56
1 year	4.94	5.13

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/3/92)	Currency Per U.S. $	Week Ago
Belgium	33.71	34.11
Canada	1.1909	1.1906
France	5.5410	5.6203
Germany	1.6358	1.6570
Italy	1234.80	1248.47
Japan	133.70	133.75
Mexico	3067.00	3067.00
Netherlands	1.8424	1.8659
South Korea	774.75	759.34
Switzerland	1.4963	1.5115
Taiwan	25.14	25.23
U.K.*	1.7379	1.7239

*U.S. $ per U.K. pound

CHEM TRADE-WEIGHTED DOLLAR (4/3/92) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	-0.2%	-19.9%

denced by such yardsticks as industry operating rates and an unemployment rate which has run counter to trends elsewhere—this may only be a brief interlude (see chart). Business confidence is retreating, manufacturers are scaling back output and capital spending plans and foreign demand is weakening, due to slower global growth and an erosion of German cost competitiveness.

Nonetheless, while the odds do favor a loosening of monetary policy once price inflation begins to slow and this spring's wage negotiations are completed, this is no sure bet. This is because the European Community agreed late last year to consummate a monetary union, with a single European currency and regional central bank, no later than January 1, 1999—the third stage of Economic and Monetary Union (EMU). At Germany's insistence, strict economic criteria for participation were established (Financial Digest—January 27, 1992); ironically, with German inflation in the 4½ percent neighborhood, the generally recognized anchor of European monetary stability currently fails to meet the tough inflation criterion for EMU participation that it demanded. As a result, the Bundesbank is insistent upon reaching a two percent rate of inflation as soon as possible—seemingly regardless of the domestic, or Europe-wide growth consequences.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/3/92	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	275.390	+ 1.720	+26.702
Loans to Depository Inst.	160	+ .084	- .089
Float	356	- .201	- .704
Total Reserve Bank Credit	308.744	+ 1.802	+21.859
Treasury Deposits with Federal Reserve Banks	5.184	- .539	- 3.168
Currency in Circulation	302.973	+ .056	+16.001
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	271.583	+ 2.229	+28.116
	4/3/92		
Member Bank Reserves:			
Total Reserves Held	56.332	- .070	+ 7.395
Excess (Deficiency)	1.586	+ 1.086	+ .212
Net Free Reserves	1.470	+ 1.043	+ .246

Monetary Aggregates †		‡ % Change Since 3 Months Ago*	‡ % Change Since Year Ago
M1 (3/23/92)	938.2	+ 18.7	+ 11.6
M2 (3/23/92)	3.467.0	+ 3.9	+ 2.7
M3 (3/23/92)	4.180.4	+ 1.7	+ 0.7
Domestic Nonfinancial Debt (4th Q'91)	11.229.1	+ 5.3	+ 4.4

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 4/3/92	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	3.96%	4.05%	4.22%
* Federal Agencies	4.05	4.25	4.52
* Municipal Notes–High Grade (34% Taxable Equivalent)	4.70	4.55	4.85
Negotiable Time CDs			
Chemical	Rates By Arrangement		
* Secondary Market–Prime	4.20	4.35	4.75

‡ Finance Company Paper–Prime

5- 14 days	3.60%
15- 29 days	4.00
30- 59 days	4.12
60- 89 days	4.15
90-179 days	4.17
180-239 days	4.05
240-270 days	4.05

‡* Bankers' Acceptances

May	4.03%
Jun.	4.03
Jul.	4.04
Aug.	4.10
Sep.	4.13
Oct.	4.13

‡ Industrial Paper–Prime

30- 89 days	4.20%
90-120 days	4.20

†Federal Funds Effective Rate 3.63%

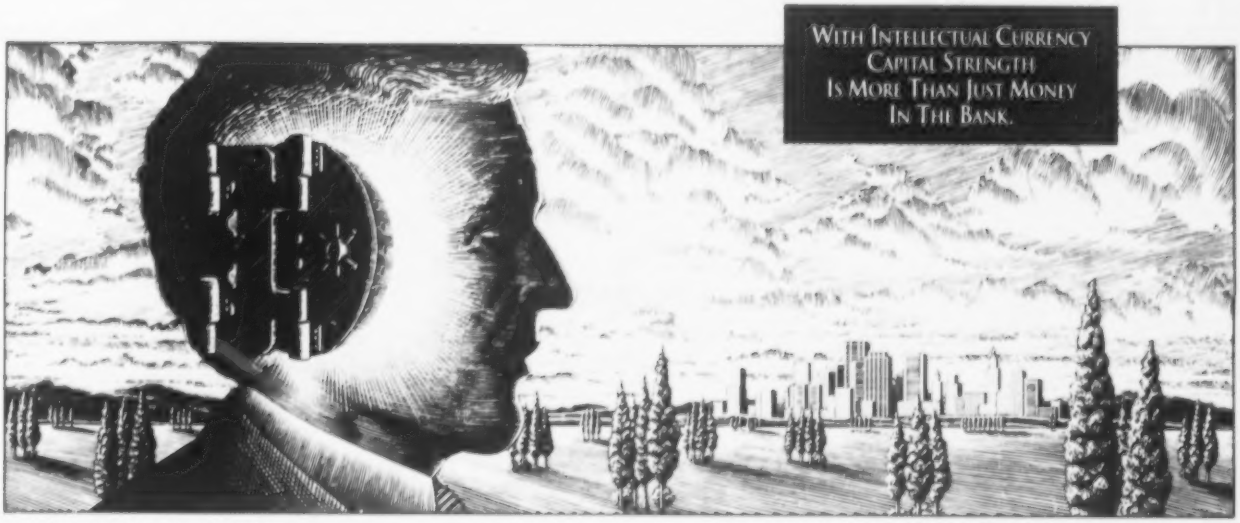
‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross Domestic Product (Current Dollars)*	4th Q'91	$ 5.740r	$ 5,709	$ 5,558
Gross Domestic Product (1987 Dollars)*	4th Q'91	$ 4.868r	$ 4,863	$ 4,855
Percent Change, Annual Rate	4th Q'91	0.4r	1.8	- 3.9
Change in Consumer Prices*	Feb '92	3.6%	1.2%	1.2%
Change in CHEM Cost of Living Index*	Feb '92	7.2%	1.2%	7.2%
Change in Producer Prices*	Feb '92	2.4%	- 3.6%	- 8.4%
Civilian Employment (Thousands of Persons) †	Mar '92 n	117,348	117,043	116,834
Unemployment as % of Civilian Labor Force †	Mar '92 n	7.3%	7.3%	6.7%
Personal Income*	Feb '92 n	$ 4,972	$ 4,918r	$ 4,761
Leading Indicators Composite Index (1967=100) †	Feb '92 n	147.6	146.5r	140.4
Industrial Production Index (1977=100) †	Feb '92	107.2	106.6	105.7
Net Change in Consumer Installment Credit †	Jan '92	$ 0.18	- $ 0.73	- $ 2.14
U.S. Merchandise Trade Balance †	Jan '92	- $ 5.77	- $ 6.00	- $ 7.38
Plant and Equipment Expenditures*	1st Q'92	$ 563.3(a)	$ 532.0(a)	$ 535.5
Private Housing Starts (Thousands of Units)*	Feb '92	1,304	1,190	1,008
New Construction Expenditures*	Feb '92 n	$ 406.2	$ 407.9r	$ 410.1
Total Business Inventories †	Jan '92	$ 813.3	$ 816.7	$ 830.3
Total Business Sales †	Jan '92	$ 536.1	$ 532.6r	$ 526.9

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.



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